

HOUSE
RESEARCH

ORGANIZATION bill analysis

5/26/89

SB 61
Montford, Santiesteban
(T. Smith)

SUBJECT: Issuance of \$500 million in water development bonds

COMMITTEE: Natural Resources: favorable, without amendment

VOTE: 8 ayes--T. Smith, Willy, Collazo, Culberson,
Holzheuser, Junell, Wentworth, Yost

0 nays

1 absent--Swift

SENATE VOTE: On final passage, April 11 -- voice vote

WITNESSES: None

BACKGROUND: SJR 5 by Montford and Santiesteban would provide the constitutional authority, in Art. 3, sec. 49-d-7, to issue an additional \$500 million in water development bonds.

In 1985 the Legislature adopted a comprehensive state water plan authorizing state support for water conservation, water development, wastewater facilities, flood control, drainage, subsidence control, aquifer recharge, chloride control, and agricultural soil and water conservation. A bond insurance program was also established under which the state guaranteed bonds issued by local governments and non-profit water supply corporations. The Texas Water Development Board issues the bonds and administers the programs of financial assistance.

The principal financing source for the state water plan is tax-exempt general obligation bonds. Since Art. 3, sec. 49 of the Texas Constitution prohibits the creation of debt issued on behalf of the state, a constitutional amendment is required to authorize issuance of bonds constituting a general obligation of the state.

Texas voters approved a constitutional amendment in 1985 authorizing \$980 million in water development bonds, in Art. 3, sec. 49-d-2 of the Constitution. The voters approved another constitutional amendment in 1987 authorizing issuance of an additional \$400 million in water development bonds, in Art. 49-d-6. Of the \$400 million, \$200 million was allocated to water

SB 61
House Research Organization
page 2

supply projects and projects to convert from groundwater to surface water supply, \$150 million to wastewater treatment projects, and \$50 million for flood control projects.

DIGEST:

SB 61 would amend sec. 16 and sec. 17, Water Code, by providing the Texas Water Development Board (TWDB) with the statutory authority to issue up to \$500 million in water development bonds, pursuant to Art. 3, sec. 49-d-7, of the Texas Constitution (the section that would be added if SJR 5 is approved). Of the \$500 million, \$250 million would be used for financial assistance for water conservation and development projects, \$200 million would be used for financial assistance for wastewater projects, and \$50 million would be used for flood control projects. The Texas Water Development Board (TWDB) would issue the bonds, the proceeds of which would be deposited in the Texas Water Development Fund.

The TWDB would be authorized to issue water development bonds for new purposes. Bond proceeds could be used to finance the transportation of water from storage to treatment or distribution facilities. Also included would be transportation of water to wholesale or retail systems and to water or wastewater filtration, treatment or transportation facilities, including interior plumbing systems.

The Legislature could require review and approval of bond issuance, the use of bond proceeds, or the rules adopted by an agency to govern their use. A body created for such review and approval could include appointees from the executive, legislative, and judicial branches of state government (the Bond Review Board under current law).

SUPPORTERS
SAY:

SB 61 would continue and expand the comprehensive approach to development and conservation of the state's water resources based on the 1985 State Water Plan. The low-interest, tax-exempt general obligation bonds would be used primarily to back loans made to small communities that could not otherwise finance their water projects. The goal of developing regional systems to serve a number of communities would also be furthered. Continued funding of the programs administered by the TWDB would allow local control of water resources to continue, yet also provide for state management of this important resource.

Under the plan, local municipalities and water districts can obtain financing by borrowing from the TWDB. The relatively low interest rates on the TWDB's bonds mean that these entities can finance their projects with financing costs that are comparable to those incurred in larger metropolitan areas.

The expansion into the retail area of the TWDB's authority to finance water projects into the retail area would permit small communities to finance utility infrastructure at with savings. The program likewise would promote conversion of small, local water supplies from groundwater to surface water sources by providing a source of financing.

Unlike general obligation bonds to finance capital improvements such as new prisons and mental health facilities, water development bonds require no payment of debt service by the state. The political subdivisions that issue bonds backed by the state and thoses that obtain loans pay the debt service on the bonds. The local entities in turn reap considerable savings through lower interest costs by using the state's superior credit rating.

Distressed communities statewide are in desperate need of clean water and wastewater service, but no alternative means of financing the improvements required to provide those services is yet available.

SB 61 would provide a possible financing source for extending water services to the colonias while providing additional authorization for other worthwhile water management projects in localities across the state.

OPPONENTS
SAY:

Less than four years ago, the voters were asked to authorize \$980 million in water bonds; less than two years ago, the Legislature returned for authorization of another \$400 million. Now yet another \$500 million is being sought, with the uses for this debt financing expanded to include direct financing of retail water sales, even including indoor plumbing. Continued debt financing of these water projects would only add to the state's soaring debt. There are too many competing public programs that are seeking bond financing, such as prison construction and public education needs, for the water interests to go to the

SB 61
House Research Organization
page 4

well once more. Also, the colonias are primarily a local problem that should be dealt with on that level, rather than seeking \$100 million devoted to helping only one region of the state.

NOTES:

A related bill, SB 2 by Uribe, et al., relating to the provision of financial assistance for water and wastewater utilities in the economically distressed colonias, would dedicate 20 percent of the bonds authorized by SJR 5 to those purposes. SB 2 would authorize the Texas Water Development Board to issue up to \$25 million per year in water development bonds for assistance for water supply and sewer services in distressed areas. SB 2 is also on today's Major State Calendar.